

**REPORT OF THE AUDIT OF THE
MCLEAN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2014**



**ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MCLEAN COUNTY FISCAL COURT

June 30, 2014

The Auditor of Public Accounts has completed the audit of the McLean County Fiscal Court for fiscal year ended June 30, 2014.

We have issued an unmodified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of McLean County, Kentucky.

Financial Condition:

The McLean County Fiscal Court had total receipts of \$5,558,753 and disbursements of \$6,164,661 in fiscal year 2014. This resulted in a total ending fund balance of \$911,587, which is a decrease of \$55,908 from the prior year.

Report Comments:

- 2014-001 The Fiscal Court Does Not Have Adequate Controls Over Decentralized Receipts
- 2014-002 The County Treasurer Should Reconcile Monthly Ambulance Runs Billed By Offsite Billing Service
- 2014-003 Quarterly Financial Reports Presented To Fiscal Court And The Department For Local Government Should Accurately Reflect Cash, Receipts, And Disbursements
- 2014-004 Lack Of Adequate Segregation of Duties Over Receipts, Cash, Bank Reconciliations, Ledger Postings, And Financial Statement Preparation
- 2014-005 Fiscal Court Investments Should Be Properly Documented
- 2014-006 The Payroll Revolving Account Was Not Properly Reconciled
- 2014-007 Internal Controls Over Disbursements/Credit Cards Should Be Strengthened
- 2014-008 The Fiscal Court Failed To Implement Adequate Internal Controls Over Capital Assets Purchases And Capital Asset Record Maintenance
- 2014-009 The Fiscal Court Should Advertise For Bids In Accordance With KRS 424.260
- 2014-010 The Fiscal Court Should Expend 100% Of Coal Impact Funds In The Transportation Category
- 2014-011 The Fiscal Court Should Implement Internal Controls Over Occupational/Net Profit Tax Collections
- 2014-012 The Fiscal Court Should Strengthen Internal Controls Over Payroll
- 2014-013 The Fiscal Court Should Have A Written Agreement To Protect Deposits

Deposits:

The fiscal court's deposits as of August 31, 2013, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$88,745

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<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT.....	1
MCLEAN COUNTY OFFICIALS	4
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - REGULATORY BASIS	6
NOTES TO FINANCIAL STATEMENT.....	10
BUDGETARY COMPARISON SCHEDULES	25
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - BUDGETARY COMPARISON SCHEDULES.....	34
SCHEDULE OF CAPITAL ASSETS	37
NOTES TO REGULATORY SUPPLEMENTARY INFORMATION - SCHEDULE OF CAPITAL ASSETS	38
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	41
COMMENTS AND RECOMMENDATIONS.....	45
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Kelly Thurman, McLean County Judge/Executive
Members of the McLean County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of McLean County, Kentucky, for the year ended June 30, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in more fully in Note 1, the financial statement is prepared by McLean County, Kentucky on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of McLean County, Kentucky as of June 30, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of McLean County, Kentucky as of June 30, 2014, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of McLean County, Kentucky. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The budgetary comparison schedules and capital asset schedule have been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and capital asset schedule are fairly stated in all material respects in relation to the basic financial statement.

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Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 10, 2015 on our consideration of McLean County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2014-001 The Fiscal Court Does Not Have Adequate Controls Over Decentralized Receipts
- 2014-002 The County Treasurer Should Reconcile Monthly Ambulance Runs Billed By Offsite Billing Service
- 2014-003 Quarterly Financial Reports Presented To Fiscal Court And The Department For Local Government Should Accurately Reflect Cash, Receipts, And Disbursements
- 2014-004 Lack Of Adequate Segregation of Duties Over Receipts, Cash, Bank Reconciliations, Ledger Postings, And Financial Statement Preparation
- 2014-005 Fiscal Court Investments Should Be Properly Documented
- 2014-006 The Payroll Revolving Account Was Not Properly Reconciled
- 2014-007 Internal Controls Over Disbursements/Credit Cards Should Be Strengthened
- 2014-008 The Fiscal Court Failed To Implement Adequate Internal Controls Over Capital Assets Purchases And Capital Asset Record Maintenance
- 2014-009 The Fiscal Court Should Advertise For Bids In Accordance With KRS 424.260
- 2014-010 The Fiscal Court Should Expend 100% Of Coal Impact Funds In The Transportation Category
- 2014-011 The Fiscal Court Should Implement Internal Controls Over Occupational/Net Profit Tax Collections
- 2014-012 The Fiscal Court Should Strengthen Internal Controls Over Payroll
- 2014-013 The Fiscal Court Should Have A Written Agreement To Protect Deposits

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

August 10, 2015

MCLEAN COUNTY OFFICIALS

For The Year Ended June 30, 2014

Fiscal Court Members:

Kelly Thurman	County Judge/Executive
Clay Troutman	Magistrate
Bobby Johnson	Magistrate
James Igleheart	Magistrate
Matthew Hayden	Magistrate

Other Elected Officials:

William Quisenberry, Jr.	County Attorney
Mike Sallee	Jailer
Stacy Patrick	County Clerk
Stephanie King-Logsdon	Circuit Court Clerk
Frank Cox, Jr.	Sheriff
Shelia Fulkerson	Property Valuation Administrator
John Muster, IV	Coroner

Appointed Personnel:

Sarah Bennet Back	County Treasurer
Elaine Gunterman	Administrative Assistant

MCLEAN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2014

MCLEAN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2014

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,378,697	\$ 131,676	\$
Excess Fees	72,258		
Licenses and Permits	5,159		
Intergovernmental	328,160	1,380,588	80,936
Charges for Services	37,761		
Miscellaneous	181,430	228,215	7,147
Interest	278	564	10
Total Receipts	<u>2,003,743</u>	<u>1,741,043</u>	<u>88,093</u>
DISBURSEMENTS			
General Government	936,238	8,617	
Protection to Persons and Property	92,729		135,031
General Health and Sanitation	132,882	20,475	
Social Services	4,191		
Recreation and Culture	25,721		
Roads		1,133,684	
Debt Service	52,120	780,018	
Capital Projects	9,230		
Administration	513,603	238,472	17,648
Total Disbursements	<u>1,766,714</u>	<u>2,181,266</u>	<u>152,679</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>237,029</u>	<u>(440,223)</u>	<u>(64,586)</u>
Other Adjustments to Cash (Uses)			
Borrowed Money	35,000	500,000	
Transfers From Other Funds	285,000	220,000	60,000
Transfers To Other Funds	(287,000)	(405,000)	
Total Other Adjustments to Cash (Uses)	<u>33,000</u>	<u>315,000</u>	<u>60,000</u>
Net Change in Fund Balance	270,029	(125,223)	(4,586)
Fund Balance - Beginning (Restated)	84,682	566,221	4,778
Fund Balance - Ending	<u>\$ 354,711</u>	<u>\$ 440,998</u>	<u>\$ 192</u>
Composition of Fund Balance			
Bank Balance	\$ 374,835	\$ 444,702	\$ 7,254
Plus: Deposits In Transit	1,244		
Less: Outstanding Checks	(21,368)	(5,063)	(7,062)
Certificate of Deposits		1,359	
Fund Balance - Ending	<u>\$ 354,711</u>	<u>\$ 440,998</u>	<u>\$ 192</u>

The accompanying notes are an integral part of the financial statement.

MCLEAN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

Budgeted Funds				
Local Government Economic Assistance Fund	Ambulance Fund	Fire Department Fund	Revolving Loan Fund	911 Fund
\$	\$	\$	\$	\$ 54,504
468,590	14,000	29,357		189,532
	581,032	47,178		
500	40,882	17,335		
233	37	240	15	
469,323	635,951	94,110	15	244,036
53,389			26	
65,818	678,751	172,997		269,026
30,005				
131,000				
24,705	21,342	7,521		
151	175,345			47,571
305,068	875,438	180,518	26	316,597
164,255	(239,487)	(86,408)	(11)	(72,561)
	15,000			
120,000	215,000	60,000		67,000
(445,000)				
(325,000)	230,000	60,000		67,000
(160,745)	(9,487)	(26,408)	(11)	(5,561)
174,816	20,555	87,296	17,385	6,345
\$ 14,071	\$ 11,068	\$ 60,888	\$ 17,374	\$ 784
\$ 699	\$ 34,562	\$ 36,378	\$ 17,374	\$ 801
(570)	(23,494)	(24,472)		(17)
13,942		48,982		
\$ 14,071	\$ 11,068	\$ 60,888	\$ 17,374	\$ 784

The accompanying notes are an integral part of the financial statement.

MCLEAN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

	Budgeted Funds	Unbudgeted Fund	
	Senior Citizens Fund	Justice Center Corporation Fund	Total Funds
RECEIPTS			
Taxes	\$	\$	\$ 1,564,877
Excess Fees			72,258
Licenses and Permits			5,159
Intergovernmental	27,892	250,542	2,769,597
Charges for Services			665,971
Miscellaneous	4,003		479,512
Interest	1	1	1,379
Total Receipts	<u>31,896</u>	<u>250,543</u>	<u>5,558,753</u>
DISBURSEMENTS			
General Government			998,270
Protection to Persons and Property			1,414,352
General Health and Sanitation			153,357
Social Services			34,196
Recreation and Culture	108,889		134,610
Roads			1,264,684
Debt Service		248,793	1,134,499
Capital Projects			9,230
Administration	26,923	1,750	1,021,463
Total Disbursements	<u>135,812</u>	<u>250,543</u>	<u>6,164,661</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(103,916)</u>		<u>(605,908)</u>
Other Adjustments to Cash (Uses)			
Borrowed Money			550,000
Transfers From Other Funds	110,000		1,137,000
Transfers To Other Funds			(1,137,000)
Total Other Adjustments to Cash (Uses)	<u>110,000</u>		<u>550,000</u>
Net Change in Fund Balance	6,084		(55,908)
Fund Balance - Beginning	1,542	3,875	967,495
Fund Balance - Ending	<u>\$ 7,626</u>	<u>\$ 3,875</u>	<u>\$ 911,587</u>
Composition of Fund Balance			
Bank Balance	\$ 8,433	\$ 3,875	\$ 928,913
Deposits In Transit			1,244
Less Outstanding Checks	(807)		(82,853)
Investments			64,283
Ending Fund Balance	<u>\$ 7,626</u>	<u>\$ 3,875</u>	<u>\$ 911,587</u>

The accompanying notes are an integral part of the financial statement.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENT**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	10
NOTE 2.	DEPOSITS.....	13
NOTE 3.	TRANSFERS	13
NOTE 4.	SHORT-TERM DEBT	14
NOTE 5.	LONG-TERM DEBT.....	14
NOTE 6.	EMPLOYEE RETIREMENT SYSTEM	19
NOTE 7.	DEFERRED COMPENSATION	20
NOTE 8.	INSURANCE	20
NOTE 9.	PRIOR PERIOD ADJUSTMENT.....	21

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2014

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of McLean County includes all budgeted and unbudgeted funds under the control of the McLean County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of receipts for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Ambulance Fund - The primary purpose of this fund is to account for the County's ambulance service. The primary sources of receipts for this fund are grants and fees for services.

Fire Department Fund - The primary purpose of this fund is to account for the County's emergency services. The primary sources of receipts for this fund are grants and donations for fire dues.

Community Development Block Grant Revolving Loan Fund - The primary purpose of this fund is to account of revolving loans. The primary source of receipts for this fund the repayment of revolving loans made to individuals.

911 Fund - The primary purpose of this fund is to account for the County's 911 services. The primary source of receipts for this fund is 911 telephone surcharges.

Senior Citizens Fund - The primary purpose of this fund is to account for the activity of the Senior Citizens Center. The primary source of receipts for this fund is grants and fees for meals.

Unbudgeted Fund

The fiscal court reports the following unbudgeted fund:

Justice Center Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of public buildings.

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursement to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Justice Center Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. McLean County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting McLean County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of McLean County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the fiscal court did not have a written agreement with the bank.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the fiscal court's deposits may not be returned. The fiscal court does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On August 31, 2013, the fiscal court's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$88,745

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2014.

	General Fund	Road Fund	LGEA Fund	Total Transfers In
General Fund	\$	\$ 285,000	\$	\$ 285,000
Road Fund	100,000		120,000	220,000
Jail Fund	60,000			60,000
LGEA Fund		120,000		120,000
Ambulance Fund			215,000	215,000
Fire Department Fund	60,000			60,000
911 Fund	67,000			67,000
Senior Citizens Fund			110,000	110,000
Total Transfers Out	<u>\$ 287,000</u>	<u>\$ 405,000</u>	<u>\$445,000</u>	<u>\$ 1,137,000</u>

Reason for transfers:

To move resources from and to the General Fund and other funds, for budgetary purposes, to the funds that will expend them.

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Short-term Debt

A. Road Construction Note

On July 25, 2013, the County borrowed \$500,000 from Kentucky Association of Counties Leasing Trust as a Road Construction Note, previously known as the Motor Fuel Anticipation Note, for various additions, and improvements to roads and highways permitted by the Road Aid Act. The interest rate is 3.58%. As of June 30, 2014, no remaining debt is outstanding.

B. Changes In Short-term Debt

Short-term Debt activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Road Construction Note	\$	\$ 500,000	\$ 500,000	\$	\$
Total Short-term Debt	\$ 0	\$ 500,000	\$ 500,000	\$ 0	\$ 0

Note 5. Long-term Debt

A. Series 2001A First Mortgage Revenue Bonds

On March 1, 2001, the McLean County Justice Center Corporation issued First Mortgage Revenue Bonds, Series 2001A in the amount of \$3,550,000. The bonds were dated March 1, 2001, payable semi-annually on March 1 and September 1, beginning September 1, 2001. The interest rate on the bonds ranges from 4.0% to 5.0%. The McLean County Fiscal Court has a sublease with Administrative Office of the Courts, Commonwealth of Kentucky, for approximately 100% of the McLean County Judicial Center. The bonds were issued in denominations of \$5,000 each or integral multiples thereof and mature at various dates beginning March 1, 2003 through March 1, 2018.

The Fiscal Court issued First Mortgage Refunding Revenue Bonds, Series 2010 to partially refund the series 2001A bonds. Principal outstanding as of June 30, 2014 was \$0.

B. Series 2010 First Mortgage Refunding Revenue Bonds

On November 30, 2010, the McLean County Justice Center Corporation issued First Mortgage Refunding Revenue Bonds, Series 2010 in the amount of \$2,570,000. The bonds were dated November 30, 2010, payable semi-annually on March 1 and September 1, beginning March 1, 2011. The interest rate on the bonds ranges from 2.0% to 4.0%. The McLean County Fiscal Court has a sublease with Administrative Office of the Courts, Commonwealth of Kentucky, for approximately 100% of the McLean County Judicial Center. The bonds were issued in denominations of \$5,000 each or integral multiples thereof and mature at various dates beginning March 1, 2015 through March 1, 2027.

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Long-term Debt (Continued)

B. Series 2010 First Mortgage Refunding Revenue Bonds (Continued)

The Fiscal Court issued the bonds to refund the First Mortgage Revenue Bonds, Series 2001A due on or after March 1, 2011. The refunding of the Series 2001A Bonds have been accomplished pursuant to the Escrow Agreement by and between the County and U.S. Bank, National Association, the paying agent for the Series 2001A Bonds (the "Escrow Agent") by depositing with the Escrow Agent a sum of initial cash provided from the proceeds of the Bonds.

Amounts deposited with the Escrow Agent bear interest at such rates and will be scheduled to mature at such times and in such amounts so that, when paid according to their respective terms, sufficient moneys together with any amounts of cash then on deposit with the Escrow Agent, will be available to fully provide for the scheduled principal and interest payments outstanding for the Series 2001A Bonds.

Principal outstanding as of June 30, 2014 was \$2,510,000. Future debt service requirement are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 165,000	\$ 83,213
2016	165,000	79,912
2017	170,000	75,788
2018	180,000	70,687
2019	180,000	65,288
2020-2024	990,000	238,650
2025-2027	660,000	55,200
Totals	<u>\$ 2,510,000</u>	<u>\$ 668,738</u>

C. Sewer Project

On July 26, 2001, the McLean County Fiscal Court borrowed \$400,000 from Kentucky Association of Counties Leasing Trust for the construction of and improvements to the McLean County sewer system. The interest rate is variable, with payments due monthly for twenty years. The principal balance at June 30, 2014 was \$185,000. Future interest and principal requirements of the General Fund are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 25,000	\$ 9,430
2016	25,000	8,080
2017	25,000	6,729
2018	25,000	5,379
2019	25,000	4,029
2020-2021	60,000	3,511
Totals	<u>\$ 185,000</u>	<u>\$ 37,158</u>

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Long-term Debt (Continued)

D. Fire Truck - Eastern Fire District

On June 20, 2002, the McLean County Fiscal Court and Eastern Fire District, a volunteer fire department, entered into a promissory note and loan agreement with the Commission on Fire Protection Personnel Standards and Education in the amount of \$75,000. The interest rate is 3.0%. Principal and interest are due in equal annual installments in the amount of \$7,535. The principal balance at June 30, 2014 was \$0.

E. Fire Truck - Western Fire District

On June 20, 2002, the McLean County Fiscal Court and Western Fire District, a volunteer fire department, entered into a promissory note and loan agreement with the Commission on Fire Protection Personnel Standards and Education in the amount of \$75,000. The interest rate is 3.0%. Principal and interest are due in equal annual installments in the amount of \$7,535. The principal balance at June 30, 2014 was \$0.

F. Fire Truck - Southeastern/Island Fire District

On July 26, 2002, the McLean County Fiscal Court and Southeastern/Island Fire District, a volunteer fire department, entered into a promissory note and loan agreement with the Commission on Fire Protection Personnel Standards and Education in the amount of \$75,000. The interest rate is 3.0%. Principal and interest are due in equal annual installments in the amount of \$7,535. The principal balance at June 30, 2014 was \$0.

G. Rescue Truck – Southern Fire District

On September 14, 2009, the McLean County Fiscal Court and Southern Fire District, a volunteer fire department, entered into a promissory note and loan agreement with the Commission on Fire Protection Personnel Standards and Education in the amount of \$35,250. The interest rate is 3.0%. Principal and interest are due in equal annual installments in the amount of \$5,660. The principal balance at June 30, 2014 was \$6,598. Future interest and principal requirements of the Fire Department Fund are:

<u>Fiscal Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Scheduled</u> <u>Interest</u>
2015	\$ 1,633	\$ 154
2016	4,965	44
Totals	<u>\$ 6,598</u>	<u>\$ 198</u>

H. Park Improvements

On September 8, 2008, the McLean County Fiscal Court borrowed \$275,000 from the Kentucky Association of Counties Leasing Trust for the purpose of improving county parks. The interest rate is variable, with payments due monthly for twenty-five years. The principal balance at June 30, 2014 was \$225,712. Future interest and principal requirements of the General Fund are:

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Long-term Debt (Continued)

H. Park Improvements (Continued)

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 5,712	\$ 9,993
2016	10,000	9,586
2017	10,000	9,150
2018	10,000	8,727
2019	10,000	8,303
2020-2024	50,000	35,202
2025-2029	70,000	23,355
2030-2033	60,000	7,441
Totals	<u>\$ 225,712</u>	<u>\$ 111,757</u>

I. Ambulance

On August 30, 2010, the McLean County Fiscal Court entered into a promissory note and loan agreement with the Green River Area Development District in the amount of \$100,000. The interest rate is variable beginning at 2.44%. Principal and interest are due in equal annual installments in the amount of \$18,119. The principal balance at June 30, 2014 was \$34,582. Future interest and principal requirements of the Ambulance Fund are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$	\$
2016	17,275	844
2017	17,307	422
Totals	<u>\$ 34,582</u>	<u>\$ 1,266</u>

J. Tractors and Mowers

On April 13, 2012, the McLean County Fiscal Court entered into a promissory note and loan agreement with the Green River Area Development District in the amount of \$124,000. The interest rate is variable beginning at 2.44%. Principal and interest are due in equal annual installments in the amount of \$32,914. The principal balance at June 30, 2014 was \$0.

K. Dump Truck

On December 5, 2011, the McLean County Fiscal Court entered into a promissory note and loan agreement with the Green River Area Development District in the amount of \$126,294. The interest rate is variable beginning at 2.44%. Four equal annual installments of principal and interest in the amount of \$26,684 with final installment of \$12,032 due. The principal balance at June 30, 2014 was \$0.

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Long-term Debt (Continued)

L. Grader

On December 28, 2012, the McLean County Fiscal Court entered into a promissory note and loan agreement with the Green River Area Development District in the amount of \$173,750. The interest rate is 2.44% payable in fourteen (14) semi-annual installments. The principal balance at June 30, 2014 was \$0.

M. Courthouse Renovations Refinance

On November 30, 2012, the McLean County Fiscal Court borrowed \$220,000 from the Kentucky Association of Counties Leasing Trust for the purpose of refinancing a lease agreement dated December 3, 2011, by and between the Kentucky Area Development Districts Financing Trust and the County of McLean County, Kentucky, proceeds of which were used to complete the renovations of the McLean County Courthouse. The interest rate is variable, with payments due until February 1, 2028. The principal balance at June 30, 2014 was \$205,000. Future interest and principal requirements of the General Fund are:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 15,000	\$ 5,535
2016	15,000	5,273
2017	10,000	5,010
2018	10,000	4,785
2019	15,000	4,560
2020-2024	75,000	17,663
2025-2028	<u>65,000</u>	<u>6,712</u>
Totals	<u>\$ 205,000</u>	<u>\$ 49,538</u>

N. Ambulance and Fire Truck

On May 2, 2014, the McLean County Fiscal Court entered into a promissory note and loan agreement with the Green River Area Development District in the amount of \$50,000. The interest rate is fixed at 2.44%. Five equal annual installments of principal and interest in the amount of \$10,744 are due. The principal balance at June 30, 2014 was \$39,463.

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$	\$
2016	9,781	963
2017	10,019	724
2018	10,264	480
2019	<u>9,399</u>	<u>229</u>
Totals	<u>\$ 39,463</u>	<u>\$ 2,396</u>

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Long-term Debt (Continued)

O. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 2,670,000	\$	\$ 160,000	\$ 2,510,000	\$ 165,000
Financing Obligations	1,027,358	50,000	381,003	696,355	47,345
Total Long-term Debt	<u>\$ 3,697,358</u>	<u>\$ 50,000</u>	<u>\$ 541,003</u>	<u>\$ 3,206,355</u>	<u>\$ 212,345</u>

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent.

The county's contribution for FY 2012 was \$353,902, FY 2013 was \$343,955, and FY 2014 was \$360,428.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 6. Employee Retirement System (Continued)

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Deferred Compensation

In January, 2003, the McLean County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2014, McLean County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 9. Prior Period Adjustment

The prior year ending cash balance was \$967,397. This had been adjusted by \$98 for voided checks in the Ambulance Fund. The restated prior year ending cash balance is \$967,495.

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MCLEAN COUNTY
BUDGRTARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

MCLEAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 1,288,000	\$ 1,288,000	\$ 1,378,697	\$ 90,697
Excess Fees	18,021	18,021	72,258	54,237
Licenses and Permits	6,485	6,485	5,159	(1,326)
Intergovernmental	429,854	429,854	328,160	(101,694)
Charges for Services	48,850	48,850	37,761	(11,089)
Miscellaneous	232,800	232,800	181,430	(51,370)
Interest	50	50	278	228
Total Receipts	2,024,060	2,024,060	2,003,743	(20,317)
DISBURSEMENTS				
General Government	943,789	986,949	936,238	50,711
Protection to Persons and Property	163,591	98,816	92,729	6,087
General Health and Sanitation	148,932	148,957	132,882	16,075
Social Services	10,500	10,500	4,191	6,309
Recreation and Culture	72,482	39,132	25,721	13,411
Debt Service	64,392	52,192	52,120	72
Capital Projects	47,200	12,400	9,230	3,170
Administration	539,027	600,967	513,603	87,364
Total Disbursements	1,989,913	1,949,913	1,766,714	183,199
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	34,147	74,147	237,029	162,882
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	185,000	185,000	285,000	100,000
Transfers To Other Funds	(319,147)	(319,147)	(287,000)	32,147
Borrowed Money			35,000	35,000
Total Other Adjustments to Cash (Uses)	(134,147)	(134,147)	33,000	167,147
Net Change in Fund Balance	(100,000)	(60,000)	270,029	330,029
Fund Balance Beginning	100,000	150,000	84,682	(65,318)
Fund Balance - Ending	\$ 0	\$ 90,000	\$ 354,711	\$ 264,711

MCLEAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 112,000	\$ 112,000	\$ 131,676	\$ 19,676
Intergovernmental	1,405,045	1,405,045	1,380,588	(24,457)
Charges for Services	200	200		
Miscellaneous		220,000	228,215	8,215
Interest	61	61	564	503
Total Receipts	1,517,306	1,737,306	1,741,043	3,937
DISBURSEMENTS				
General Government	8,800	13,400	8,617	4,783
General Health and Sanitation	20,694	20,694	20,475	219
Transportation Facilities and Services	1,000	1,000		1,000
Roads	994,931	1,196,180	1,133,684	62,496
Debt Service	800,903	814,004	780,018	33,986
Administration	264,978	266,028	238,472	27,556
Total Disbursements	2,091,306	2,311,306	2,181,266	130,040
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(574,000)	(574,000)	(440,223)	133,977
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			220,000	220,000
Transfers To Other Funds	(185,000)	(185,000)	(405,000)	(220,000)
Borrowed Money	500,000	500,000	500,000	
Total Other Adjustments to Cash (Uses)	315,000	315,000	315,000	
Net Change in Fund Balance	(259,000)	(259,000)	(125,223)	133,777
Fund Balance Beginning	259,000	259,000	566,221	307,221
Fund Balance - Ending	\$ 0	\$ 0	\$ 440,998	\$ 440,998

MCLEAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 84,627	\$ 84,627	\$ 80,936	\$ (3,691)
Charges for Services	100	100		(100)
Miscellaneous	11,000	11,000	7,147	(3,853)
Interest	5	5	10	5
Total Receipts	95,732	95,732	88,093	(7,639)
DISBURSEMENTS				
Protection to Persons and Property	174,034	173,234	135,031	38,203
Administration	19,198	19,998	17,648	2,350
Total Disbursements	193,232	193,232	152,679	40,553
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(97,500)	(97,500)	(64,586)	32,914
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	95,500	95,500	60,000	(35,500)
Total Other Adjustments to Cash (Uses)	95,500	95,500	60,000	(35,500)
Net Change in Fund Balance	(2,000)	(2,000)	(4,586)	(2,586)
Fund Balance Beginning	2,000	2,000	4,778	2,778
Fund Balance - Ending	\$ 0	\$ 0	\$ 192	\$ 192

MCLEAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 395,800	\$ 395,800	\$ 468,590	\$ 72,790
Miscellaneous	4,000	4,000	500	(3,500)
Interest	5	5	233	228
Total Receipts	399,805	399,805	469,323	69,518
DISBURSEMENTS				
General Government	61,500	54,100	53,389	711
Protection to Persons and Property	43,000	73,000	65,818	7,182
Social Services	37,300	42,800	30,005	12,795
Recreation and Culture	1,000	1,000		1,000
Roads	131,000	131,000	131,000	
Debt Service	20,418	24,718	24,705	13
Administration	1,100	7,500	151	7,349
Total Disbursements	295,318	334,118	305,068	29,050
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	104,487	65,687	164,255	98,568
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			120,000	120,000
Transfers To Other Funds	(204,487)	(204,487)	(445,000)	(240,513)
Total Other Adjustments to Cash (Uses)	(204,487)	(204,487)	(325,000)	(120,513)
Net Change in Fund Balance	(100,000)	(138,800)	(160,745)	(21,945)
Fund Balance Beginning	100,000	240,000	174,816	(65,184)
Fund Balance - Ending	\$ 0	\$ 101,200	\$ 14,071	\$ (87,129)

MCLEAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

AMBULANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 10,714	\$ 10,714	\$ 14,000	\$ 3,286
Charges for Services	560,500	560,500	581,032	20,532
Miscellaneous	1,100	1,100	40,882	39,782
Interest	10	10	37	27
Total Receipts	572,324	572,324	635,951	63,627
DISBURSEMENTS				
Protection to Persons and Property	575,994	681,869	678,751	3,118
Debt Service	18,118	21,868	21,342	526
Administration	193,785	178,160	175,345	2,815
Total Disbursements	787,897	881,897	875,438	6,459
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
	(215,573)	(309,573)	(239,487)	70,086
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	215,573	215,573	215,000	(573)
Borrowed Money			15,000	15,000
Total Other Adjustments to Cash (Uses)	215,573	215,573	230,000	14,427
Net Change in Fund Balance				
		(94,000)	(9,487)	84,513
Fund Balance - Beginning (Restated)			20,555	20,555
Fund Balance - Ending				
	\$ 0	\$ (94,000)	\$ 11,068	\$ 105,068

MCLEAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

FIRE DEPARTMENT FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 32,931	\$ 32,931	\$ 29,357	\$ (3,574)
Charges for Services	40,000	40,000	47,178	7,178
Miscellaneous	1,000	1,000	17,335	16,335
Interest	5	5	240	235
Total Receipts	<u>73,936</u>	<u>73,936</u>	<u>94,110</u>	<u>20,174</u>
DISBURSEMENTS				
Protection to Persons and Property	90,050	185,900	172,997	12,903
Debt Service	7,535	8,135	7,521	614
Administration	9,700	3,250		3,250
Total Disbursements	<u>107,285</u>	<u>197,285</u>	<u>180,518</u>	<u>3,250</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(33,349)</u>	<u>(123,349)</u>	<u>(86,408)</u>	<u>23,424</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>29,064</u>	<u>29,064</u>	<u>60,000</u>	<u>30,936</u>
Total Other Adjustments to Cash (Uses)	<u>29,064</u>	<u>29,064</u>	<u>60,000</u>	<u>30,936</u>
Net Change in Fund Balance	(4,285)	(94,285)	(26,408)	67,877
Fund Balance Beginning	<u>4,285</u>	<u>4,285</u>	<u>87,296</u>	<u>83,011</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (90,000)</u>	<u>\$ 60,888</u>	<u>\$ 150,888</u>

MCLEAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

REVOLVING LOAN FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$ 5	\$ 5	\$ 15	\$ 10
Total Receipts	5	5	15	10
DISBURSEMENTS				
General Government	13,300	13,300	26	13,274
Administration	4,115	4,115		4,115
Total Disbursements	17,415	17,415	26	17,389
Net Change in Fund Balance	(17,410)	(17,410)	(11)	17,399
Fund Balance Beginning	17,410	17,410	17,385	(25)
Fund Balance - Ending	\$ 0	\$ 0	\$ 17,374	\$ 17,374

MCLEAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

911 FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 65,000	\$ 65,000	\$ 54,504	\$ (10,496)
Intergovernmental	260,300	260,300	189,532	(70,768)
Charges for Services	200	200		(200)
Total Receipts	325,500	325,500	244,036	(81,464)
DISBURSEMENTS				
General Government	353,575	353,575	269,026	84,549
Administration	65,925	65,925	47,571	18,354
Total Disbursements	419,500	419,500	316,597	102,903
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(94,000)	(94,000)	(72,561)	21,439
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	94,000	94,000	67,000	(27,000)
Total Other Adjustments to Cash (Uses)	94,000	94,000	67,000	(27,000)
Net Change in Fund Balance			(5,561)	(5,561)
Fund Balance Beginning			6,345	6,345
Fund Balance - Ending	\$ 0	\$ 0	\$ 784	\$ 784

MCLEAN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

SENIOR CITIZENS FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 37,240	\$ 37,240	\$ 27,892	\$ (9,348)
Miscellaneous	6,500	6,500	4,003	(2,497)
Interest			1	1
Total Receipts	43,740	43,740	31,896	(11,844)
DISBURSEMENTS				
Social Services	105,712	111,937	108,889	3,048
Administration	27,525	28,500	26,923	1,577
Total Disbursements	133,237	140,437	135,812	4,625
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(89,497)	(96,697)	(103,916)	(7,219)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	89,497	89,497	110,000	20,503
Total Other Adjustments to Cash (Uses)	89,497	89,497	110,000	20,503
Net Change in Fund Balance		(7,200)	6,084	13,284
Fund Balance Beginning			1,542	1,542
Fund Balance - Ending	\$ 0	\$ (7,200)	\$ 7,626	\$ 14,826

MCLEAN COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2014

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

MCLEAN COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014

MCLEAN COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 1,206,309	\$	\$	\$ 1,206,309
Buildings	8,266,543			8,266,543
Vehicles and Equipment	1,823,269	85,000		1,908,269
Equipment	2,222,708	161,608		2,384,316
Infrastructure	3,132,030	259,899		3,391,929
 Total Capital Assets	 <u>\$ 16,650,859</u>	 <u>\$ 506,507</u>	 <u>\$ 0</u>	 <u>\$17,157,366</u>

MCLEAN COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2014

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	50
Buildings	\$ 25,000	50
Building Improvements	\$ 25,000	50
Other Equipment	\$ 5,000	10
Vehicles and Equipment	\$ 10,000	10
Infrastructure	\$ 25,000	50

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kelly Thurman, McLean County Judge/Executive
Members of the McLean County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the McLean County Fiscal Court for the fiscal year ended June 30, 2014, and the related notes to the financial statement and have issued our report thereon dated August 10, 2015. The Fiscal Court's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the McLean County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the McLean County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the McLean County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-001, 2014-002, 2014-004, 2014-006, 2014-007, 2014-008, 2014-011, and 2014-012 to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McLean County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2014-001, 2014-003, 2014-005, 2014-007, 2014-009, 2014-010, 2014-012, and 2014-013.

County Judge's Response to Findings

The McLean County Judge's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The County Judge's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

August 10, 2015

**MCLEAN COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2014

MCLEAN COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2014

FINANCIAL STATEMENT FINDINGS:

2014-001 The Fiscal Court Does Not Have Adequate Controls Over Decentralized Receipts

The McLean County Fiscal Court does not issue receipts for all monies received at sites other than the courthouse. This includes monies collected at the transfer site, park, animal shelter and fire department fundraiser events. Daily check out sheets including receipts numbers were not being utilized at any of these sites. Also, there is no approved fee schedule for the animal shelter. KRS 64.840(2) requires all governmental officials handling public funds to issue a three part pre-numbered receipt with “One (1) copy of the receipt shall be given to the person paying the fine, forfeiture, tax, or fee and one (1) copy shall be retained by the official for his own records. One (1) copy of the receipt shall be retained by the official to be placed with the daily bank deposit.” Also, good internal controls dictate that the Fiscal Court should monitor collections of all decentralized receipts.

Decentralized locations are managed by persons other the financial staff of the county. The Fiscal Court cannot verify the amount of funds collected each day, since they are not issuing receipts or keeping other documentation to support the collection of all funds received. By not requiring a receipt for each payment, the opportunity for theft of funds or fraudulent recording is increased. Additionally, there were no receipts from the animal shelter in the fiscal year ended June 30, 2014. The transfer site has been making deposits instead of submitting funds to the County Treasurer. One deposit made by a fire department was not recorded on the receipts ledger. We recommend that the Fiscal Court require receipts as per KRS 64.840(2) for all offsite collections and daily check out sheets be used so that the numerical sequence of receipts would be accounted for and properly maintained. Fundraiser receipts should be remitted to the Treasurer for deposit and inclusion in the Fire Department Fund. We also recommend the Fiscal Court determine what fees may have been collected at the animal shelter and if money is due to the Fiscal Court. Additionally, all funds should be remitted to the County Treasurer on a timely basis.

County Judge Executive Kelly Thurman's Response: We recognize the deficiencies noted and continue to monitor revenues from decentralized operations. Proper documentations of receipts shall be made and all sources of cash receipts and checks shall be collected and deposited through the County Treasurer's Office.

2014-002 The County Treasurer Should Reconcile Monthly Ambulance Runs Billed By Offsite Billing Service

McLean Fiscal Court has contracted with a third party billing service to bill for the McLean County Ambulance Service. Ambulance runs are submitted to the third party after runs are made. The third party will then prepare a bill and either bill insurance or individuals accordingly. Payments are then remitted directly to the County Treasurer. The Ambulance Director prepares a monthly report that contains all ambulance runs. The third party also generates a monthly report containing all the ambulance runs for McLean County Ambulance Service. However, there is no documented reconciliation between the ambulance runs billed by the third party and ambulance runs per the Ambulance Director. Good internal controls dictate that these should be reconciled to ensure that all ambulance runs are being bill correctly on behalf of the McLean County Ambulance Service.

Ambulance charges are overseen by persons other the financial staff of the county. By not reconciling ambulance runs, the Fiscal Court does not know if the correct amount of ambulance runs has been billed by the third party. We recommend that ambulance runs billed by the third party be reconciled to the McLean County Ambulance Service's records and the reconciliation be documented.

County Judge Executive Kelly Thurman's Response: The concern is noted and will be addressed with the County EMS Director.

MCLEAN COUNTY
COMMENTS AND RECOMMENDATIONS
June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-003 Quarterly Financial Reports Presented To Fiscal Court And The Department For Local Government Should Accurately Reflect Cash, Receipts, And Disbursements

During testing auditors noted that the Fourth Quarter Financial Statement was not accurate. KRS 68.360 requires a statement for the year showing the actual receipts, encumbrances, disbursements, and transfers that is to be submitted to the state local finance officer. The former treasurer was out of the office for personal reasons during the close of the fiscal year. Closing adjustments were improperly classified causing the cash balances to be misstated. There were no internal controls in place to verify amounts remitted were correct. Without proper oversight, amounts on the financial statement could be materially misstated. We recommend the Fiscal Court monitor quarterly reports and compare quarterly reports to supporting documentation.

County Judge Executive Kelly Thurman's Response: Currently, Fiscal Court is reviewing and monitoring quarterly financial reports for accuracy.

2014-004 Lack Of Adequate Segregation Of Duties Over Receipts, Cash, Bank Reconciliations, Ledger Postings, And Financial Statement Preparation

During testing we noted that there is a lack of segregation of duties over receipts, cash, bank reconciliations, ledger postings, and financial statement preparation. Segregation of duties over these functions, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. The treasurer performs all accounting functions over cash and receives, posts, and reconciles receipts as well as preparation of the quarterly financial statements. There were no documented compensating controls to offset the lack of segregation of duties or reduce the deficiency to less than significant level. Due to the lack of oversight the following errors were noted:

- The cover of the fourth quarter financial statement was not correct.
- The financial statements for the Public Properties Corporation were misstated.
- No Schedule of Federal Awards was prepared.
- Liabilities section on the fourth quarter financial statement was understated.
- Payroll account was not properly reconciled.
- Cash balances, receipts, and disbursements were incorrect for most funds.
- Fund bank accounts went months without being reconciled.
- Cash transfers were not approved by fiscal court.

We recommend the fiscal court segregate these duties or implement compensating controls over these duties.

County Judge Executive Kelly Thurman's Response: Duties are currently segregated to the Judge/Executive's staff and County Treasurer. Budget constraints limit the workforce and best efforts are made to insure that the noted deficiencies are addressed.

MCLEAN COUNTY
COMMENTS AND RECOMMENDATIONS
June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-005 Fiscal Court Investments Should Be Properly Documented

During testing of investments, we found that the treasurer had not prepared an investment ledger. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the County Budget Preparation and State Local Finance Officer Policy Manual, requires books of original entry be maintained for receipts and expenditures of all transactions of the fiscal court. This includes an investment ledger or journal. The treasurer failed to prepare a ledger and there were no internal controls in place to ensure that the proper records were being maintained. Therefore, the Fiscal Court had no documentation of investment balances. Since there was no oversight, investments could be liquidated without Fiscal Court knowledge. We recommend the Fiscal Court require an investment ledger be maintained and investments be reviewed in order to verify amounts listed on the quarterly as investments.

County Judge Executive Kelly Thurman's Response: The investment ledger is being maintained and is current at this time.

2014-006 The Payroll Revolving Account Was Not Properly Reconciled

During testing of cash, we discovered the payroll account was not properly reconciled. An accurate running balance had not been maintained for the entire fiscal year. The payroll activity was not entered into the financial software, so there were no ledgers to support payroll cash transactions. There were no internal controls in place to determine the payroll account balance. Payroll revolving accounts are established in order to process individual payroll transactions and should zero out or reconcile to a minimal carrying balance.

Since payroll activity was not reconciled, disbursements from the various funds of the county did not agree to amounts received by the payroll account and payroll related items were posted incorrectly on the financial statement. The lack of controls over payroll could cause a misappropriation of county assets. We recommend the payroll account be properly reconciled and that the fiscal court establish internal controls to determine that the account is properly handled.

County Judge Executive Kelly Thurman's Response: The findings are recognized and have been corrected in the past year.

2014-007 Internal Controls Over Disbursements/Credit Cards Should Be Strengthened

During our testing of disbursements and credit cards, we noted that ten of the items tested on credit card statements did not have proper supporting documentation for the expense paid. Additionally, 25 of 60 operating disbursements were paid prior to fiscal court approval. None of the invoices of the items tested were stamped paid. KRS 68.275 requires "The county judge/executive shall present all claims to the fiscal court for review prior to payment and the court, for good cause shown, may order that a claim not be paid". Also, good internal controls dictate that adequate supporting documentation be maintained for all disbursements and credit card transactions. All vendor invoices and receipts should be maintained including any additional supporting documentation and agreed to the corresponding purchase order and reports. Invoices should be marked paid to prevent duplicate payment.

These deficiencies over disbursements and credit card transactions occurred because the Fiscal Court's lack of internal controls and oversight. Failing to maintain adequate documentation can result in paying invoices for goods or services that were not provided to the Fiscal Court. We recommend that the Fiscal Court develop internal procedures to ensure that disbursements and credit card transactions are properly supported.

MCLEAN COUNTY
COMMENTS AND RECOMMENDATIONS
June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-007 Internal Controls Over Disbursements/Credit Cards Should Be Strengthened

County Judge Executive Kelly Thurman's Response: Currently, all credit card expenditures must be documented with appropriate receipts attached. All credit card transactions must be reported in advance to the Treasurer, (unless emergency) and all credit cards are maintained in the Treasurer's office and must be checked out for use.

2014-008 The Fiscal Court Failed To Implement Adequate Internal Controls Over Capital Assets Purchases And Capital Asset Record Maintenance

During testing we noted that the Fiscal Court's capital asset schedule was understated. The County Budget Preparation and State Local Finance Officer Policy Manual requires capital asset purchases be inventoried and tracked. The Fiscal Court failed to properly record asset purchases. There was no oversight to determine if capital asset records were being maintained. The effect of the lack of internal controls was that the County's capital asset schedule was understated by \$500,007. Additionally, some capital assets additions were not properly added to the county's insurance policy. We recommend the Fiscal Court prepare and maintain adequate capital asset property records in accordance with the guidance in the County Budget Preparation and State Local Finance Officer Policy Manual.

County Judge Executive Kelly Thurman's Response: Capital Asset ledgers are currently maintained by the Judge/Executive's assistant and are up to date as of this time.

2014-009 The Fiscal Court Should Advertise For Bids In Accordance With KRS 424.260

During the review of capital asset additions, we noted three instances where bids were not obtained as required by KRS 424.260. KRS 424.260 states "Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except for perishable meat, fish and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000), without first making newspaper advertisement for bids."

The Fiscal Court purchased a fire engine that cost \$55,000. This occurred because a fire chief obligated the county. Since this transaction was not properly bid, the Fiscal Court is in violation of the McLean County Administrative code and KRS 424.60. Additionally, there were three recycling trailers purchased totaling \$26,100. The payment for the trailers was split between funds. The purchase of the trailers was not properly bid. There was also an ambulance purchased that did not have supporting bid documentation. We recommend all purchases where a single vendor is paid greater than \$20,000 be bid in accordance with KRS 424.260 and that documentation of the bid process be maintained.

County Judge Executive Kelly Thurman's Response: We agree with the finding and will adhere to KRS statutes and County Administrative Code procurement procedures.

MCLEAN COUNTY
COMMENTS AND RECOMMENDATIONS
June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-010 The Fiscal Court Should Expend 100% Of Coal Impact Funds In The Transportation Category

While reviewing restricted (LGEA) funds disbursements, auditor noted that McLean County did not expend any of Coal Impact funds in the required transportation categories. KRS 42.470(1)(c) says expenditures of funds received by non-coal producing counties impacted by the transport of coal shall be limited to projects set out in KRS 42.55(2)(c). KRS 42.455(2)(c) says that projects are limited to "Public transportation, including mass transit systems, streets, and roads". Also KRS 42.455 specifically prohibits the expenditures of LGEA funds for the administration of government. Disbursements from the LGEA fund were for Sheriff's vehicles fuel, fuel for ambulance service, new ambulance, meal driver's mileage, economic development and debt related funds. By not spending Coal Impact Funds accordingly, the Fiscal Court runs the risk or no longer receiving these funds or having to repay funds that were not spent appropriately. We recommend that the Fiscal Court adhere to the provisions of KRS 42.470 and KRS 42.455.

County Judge Executive Kelly Thurman's Response: We agree with the finding and all future LGEA expenditures shall comply with KRS 42.455.

2014-011 The Fiscal Court Should Implement Internal Controls Over Occupational/Net Profit Tax Collections

During testing of occupational/net profit taxes and review of internal controls we noted that there were insufficient internal controls over occupational tax collections. Good internal controls dictate that the Fiscal Court be able to determine that all eligible taxpayers have been billed and that payments for taxes are being made properly. The Fiscal Court hired an occupational tax administrator (OTA) to handle the collection and processing of occupational/net profit taxes. The OTA maintains all occupational tax records and gives the treasurer the checks and a report of who paid. The OTA does not bring the checks and report on a daily or even weekly basis. The treasurer then deposits the checks after agreeing checks back to the report, but has no way of knowing if taxes paid agree to returns or if all eligible taxpayers have been billed. We recommend the Fiscal Court require tax returns be remitted to the Fiscal Court (their designee) and that the designee periodically verifies amounts collected to the applicable tax return. Additionally, the database of eligible taxpayers should be occasionally checked against tax returns to determine that all eligible taxpayers are properly submitting tax returns and tax payments. The Fiscal Court should also require daily deposits of occupational/net profit taxes or at a minimum when those receipts exceed \$500.

County Judge Executive Kelly Thurman's Response: The finding shall be addressed with the Occupational Tax Administrator.

MCLEAN COUNTY
COMMENTS AND RECOMMENDATIONS
June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-012 The Fiscal Court Should Strengthen Internal Controls Over Payroll

During testing of payroll, we noted there were not adequate internal controls over payroll. Payments were made that were not approved by fiscal court and employees were allowed to accumulate comp time in excess of prescribed limits. KRS 337.285 5(b) states “A county or city employee who has accrued four hundred eighty (480) hours of compensatory time off pursuant to paragraph (a)1. of this subsection, or two hundred forty (240) hours of compensatory time off pursuant to paragraph (a)2. of this subsection, shall for additional overtime hours of work, be paid overtime compensation.”

Good internal controls dictate that payroll payments should be reviewed by someone who is not preparing the payroll documents. The treasurer prepares payroll, makes payroll bank deposits and transfers, and posts payroll to the financial statement. Due to the lack of oversight, the treasurer was overpaid by \$606.45, former employees were overpaid vacation balances, and new employee salaries were never approved by fiscal court. We recommend the Fiscal Court require new employees salaries be approved in open court, have someone independent of the payroll preparation check amounts paid to employees and make sure that employees are not paid in excess of Fiscal Court approved amounts. Additionally, the fiscal court should monitor comp leave balances to ensure compliance with KRS 337.285.

County Judge Executive Kelly Thurman's Response: Compensatory time and vacation time are monitored on a monthly basis. All changes in payroll schedules, new hires, and terminations shall be approved by fiscal court.

2014-013 The Fiscal Court Should Have A Written Agreement To Protect Deposits

The Fiscal Court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of August 31, 2013, the Fiscal Court had bank deposits of \$338,745; FDIC insurance of \$250,000; and no collateral pledged or provided. Additionally, on June 30, 2014, the bank had pledged ineligible collateral to the Fiscal Court. We recommend the Fiscal Court enter into a written agreement with the depository institution to secure the Fiscal Court's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Judge Executive Kelly Thurman's Response: A written agreement with depository bank institution is currently in place.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

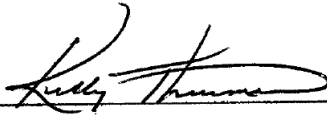
MCLEAN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2014**

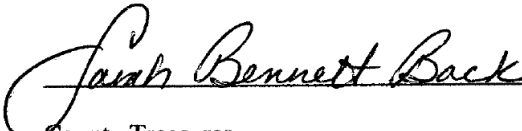
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
McLEAN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2014

The McLean County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

